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**Third
Quarter Report
Diversified
Investment Funds
July 1 to
Sept. 30, 1977**

HOWARD ROSS LIBRARY
OF MANAGEMENT

MCGILL UNIVERSITY

International Trust Company

International Trust Company has the same broad powers as any Canadian trust company. It has however, elected to confine its activities almost exclusively to Asset Management.

The Company provides Asset Management to institutional and individual investors. Asset Management includes investment management, trustee and custodian services and fulfillment of the fiduciary responsibilities inherent therein.

The Diversified Investment Funds

The Diversified Investment Funds were established January 1, 1967 and are operated for the collective investment and reinvestment of tax-sheltered monies. The Funds are fully managed by International Trust Company and consist of four separate investment portfolios: the Fixed Income Fund; the Mortgage Fund; the Canadian Equity Fund; and the International Equity Fund.

Additions to, or withdrawals from, each Fund, or inter-Fund transactions, are effected on monthly valuation dates at net asset value. Income earned is distributed monthly.

This report is concerned primarily with investment composition and performance.

The Background For Investment

Economic Outlook

There is a considerable amount of head scratching among economists these days when it comes to deciding just where in the economic cycle we are.

In the U.S. an economic recovery has been deemed to be underway since March 1975, and so it is now well into its third year. And while there has been considerable groaning about the mid-year 1977 slowdown, the evidence is that it has been a fairly good, traditional business upswing.

Indeed, in the first half of 1977 the U.S. economy boomed ahead at a rate reminiscent of the rebound from the trough of the recession in early 1975. GNP in constant dollars moved up at an annual rate of almost 7% in the first six months of the year. This heady pace has slowed down in the second half and forecasts for 1978 are somewhat mixed.

This is scarcely to be wondered at since the crosscurrents one would expect at this point in the cycle are, in fact, present. Inflation is no longer declining nicely, and on GNP prices, has been wiggling up from around 5% in early 1976 to around 7% in the 1977 first half. Productivity, which had also been improving nicely, has slowed down in its rate of change.

At the same time the U.S. economy is still showing good strength in housing, retail sales and both production and employment have been showing increases. Also, the Commerce Department's recent report on plant and equipment spending shows real outlays in 1977 are likely to be up 8% over 1976.

Thus we have a cycle in the U.S. that is beginning to mature, but is by no means heading down. It appears now that real growth in GNP could be of the order of 4.5%-5.0% in 1978 with corporate profits continuing to improve and inflation rates not much changed.

In Japan business activity has been sluggish with industrial production up only 2.3% in the second quarter. However, the cyclical rise is still intact with real GNP growing better than 6% for the year as a whole. Inflation has slowed down and there is some hope

that this favourable trend will continue. The Consumer Price Index is forecast at 8.5% for 1977 and 7.2% for 1978 with GNP prices running slightly below that.

In Europe the slowdown is also apparent with Germany and France showing the best strength. Industrial production in these two countries is up about 4% in 1977, but there is little optimism about this rate improving in 1978. The pattern has been quite erratic in the United Kingdom but real growth has been running a little above forecasts, and this year will be 2.5%-3% with not much change next year.

Germany continues to be among the low inflation countries with a CPI rate around 4% in 1977, maybe somewhat higher. In France the monthly inflation rate was in double digits last spring but has come down and might average 8%-9% this year.

The U.K. is the high inflation country and here we are talking of rates of 15% or more but an improvement is broadly forecast for 1978.

Back home in Canada the classic pattern of an economic cycle has not developed. In fact the country has been treated to wide swings on a quarterly basis, caused partly by big inventory shifts but mostly by remarkable swings in the balance of payments. Of course the situation has not been helped by Statistics Canada's interminable revision of the data so that one must forecast not only the future but the past as well.

The economic trend since the second quarter of 1975, when the current recovery is technically supposed to have started, has been so wobbly that the president of the Conference Board in Canada was moved to comment at the end of June that we could stop worrying about how typical the recovery had been if we took the view we had simply had a prolonged recession.

This comment was made before the second quarter figures appeared, which showed a decline in that period. Whether or not we should consider the prolonged recession still in effect is a moot point. It is certainly true that

those who have been forecasting on the low side in 1977 are going to be closest to the mark. Perhaps for this reason economists are being restrained in their 1978 forecasts. A recent survey showed a majority expecting growth of real GNP next year to run between 3.5% and 4.5%, with the fewest estimating above that.

The Conference Board is thus among the small number of optimists with its forecast of real growth of 5.2% in 1978. The optimism is based on a strong merchandise trade performance, and a reawakening of the consumer who has been notably loath to spend his hard earned dollars.

Corporate Profits — Of prime importance to investors in all this is an apparent recovery in corporate profits. A recent summary of forecasts by the Conference Board showed an average forecast of an 11.3% increase in profits in 1977, followed by a 13.3% increase in 1978. If this comes to pass, 1977 would be the first year since the 1974-1975 recession when corporate profits moved up. Since some regard profits as a leading indicator, and others as coincident, the lack of recovery in this key sector probably tells the story as well as anything. The Canadian economy has been going nowhere for two years, a fact the stock market has already recognized.

Inflation

In the same Conference Board survey referred to above, the average forecast for the Consumer Price Index for 1977 is 7.4% and is 6.6% for 1978. Inflation is one of those elusive things that everyone has their own, firmly held opinion on.

Governments are apparently trying to restrain their own spending, but are coming down from such giddy heights that progress is slow. The same could be said for money supply growth. If more restraint was applied we would probably be living not through a slow, wobbly period, but through a major recession.

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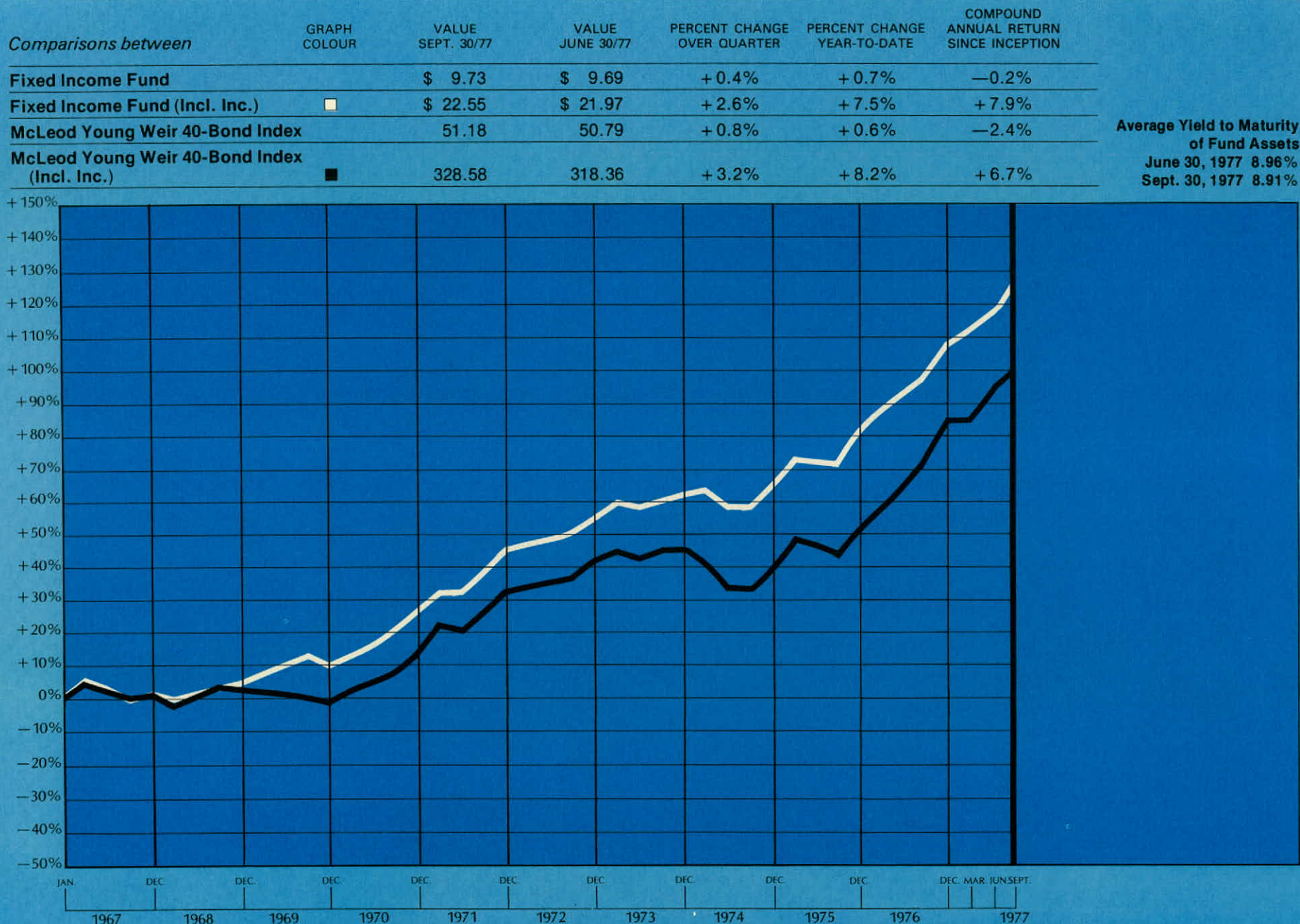
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Fixed Income Fund



Fixed Income Fund

Portfolio Statement

Bonds/Convertible Bonds 97%		Market Value
Par Value		Sept. 30, 1977
\$ 250,000	Govt. Canada 8% July 1/82	\$ 250,000
500,000	Govt. Canada 4-1/2% Sept. 1/83	420,000
1,575,000	Govt. Canada 9-1/4% May 15/97	1,612,406
500,000	Alberta Govt. Telephone 9.90% Oct. 1/79	519,375
250,000	Hydro Elec. Pwr. Comm. of Ont. 9-3/4% Aug 15/81	262,500
1,025,000	Hydro Elec. Pwr. Comm. of Ont. 10% May 18/01	1,083,938
450,000	Manitoba Telephone System 7-7/8% Nov. 15/91	411,750
325,000	Nfld. and Lab. Hydro 10% May 9/02	322,563
500,000	Nova Scotia Pwr. Comm 9-1/4% July 21/02	494,375
850,000	Prov. of Ontario 9% July 1/98 Prepay July 1/83	884,000
325,000	Prov. of Quebec 8-5/8% Mar. 1/99	295,750
300,000	Prov. of Sask. 7-3/4% Feb. 17/82	295,125
250,000	Prov. of Sask. 8-1/4% Dec. 3/98	230,000
250,000	Prov. of Sask. 9-7/8% Nov. 3/00 Prepay Nov. 3/83	270,625
300,000	Abitibi Pulp & Paper 10-1/2% Mar. 1/95 Prepay Mar. 1/85	315,750
400,000	Alum Co. of Canada 9-3/8% Jan. 2/91	398,000
300,000	Ashland Oil Can. Conv. 5% Jan 15/93	273,000
300,000	Ashland Oil Can. 10-3/8% Nov. 1/96	312,375
200,000	BM-RT 9% Apr. 1/80	202,000
500,000	BM-RT 10-1/4% Jun 1/81	517,500
250,000	Bell Canada 9-3/4% Jun 3/79	256,250
400,000	Bell Canada 8-3/8% Aug. 1/93	368,000
600,000	Bell Canada 9-7/8% Apr. 1/99	618,000
200,000	B.C. Telephone 8-3/4% Jan. 15/81	201,250
250,000	B.C. Telephone 9-1/4% Apr. 15/98	245,000
400,000	Calgary Power Ltd. 11-1/8% Sept. 16/79	418,500
500,000	Canadian Imperial Bank of Commerce 7-1/4% Dec. 15/92 Prepay Dec. 15/78	496,875
200,000	CP Limited 11-1/4% Nov. 15/95	217,500
250,000	Cominco Ltd. 8-1/2% Apr. 15/91	232,187
100,000	Consumers Gas 8-3/4% Aug. 15/94	95,000
250,000	Dominion Stores 9-1/2% Mar. 1/80	254,000
300,000	First Canadian Investments Limited 9-3/4% Mar. 15/81	306,000
500,000	First Canadian Investments Limited 10% Dec. 1/81	515,000
500,000	General Motors Accept. 8-5/8% Feb. 9/79	503,850
300,000	Hudson's Bay Company 9-3/4% May 1/79	304,500

Bonds/Convertible Bonds 97% Par Value		Market Value Sept. 30, 1977
\$ 250,000	Hudson Bay Co. Acceptance 8-3/4% Jun. 1/91	\$ 228,125
200,000	Hudson Bay Mining & Smelting 9% Jun. 15/91	187,500
750,000	I.A.C. Limited 10-1/4% July 30/83	787,500
300,000	John Labatt 9-1/4% Sept. 1/90	300,000
200,000	John Labatt 9% Mar. 15/94	194,000
300,000	Molson Industries 8-1/4% Nov. 1/91	273,750
100,000	Niagara Realty Corp. 10-3/8% Dec. 18/84	105,500
300,000	Niagara Realty Corp. 9-1/2% Jan. 30/84	307,500
200,000	Noranda Mines 9-1/4% Oct. 15/90	195,500
235,000	Olympia & York Dev. Ltd. 10-1/2% Oct. 31/79	242,637
300,000	Olympia & York Dev. Ltd. 9% Mar. 1/90 ret. 8-3/4% Mar. 1/82	303,000
350,000	Royal Bank of Canada 9% Jun. 1/87	355,250
350,000	Roynat Ltd. 9% Mar. 1/80	350,000
200,000	Seagram Co. Ltd. 7% Dec. 15/78	198,400
600,000	Seagram Co. Ltd. 9-1/2% Jun. 1/80	614,250
400,000	Steel Co. Canada 9-1/4% Nov. 1/90	401,500
200,000	TDRI Conv. 5-1/2% Feb. 15/93	196,000
600,000	Tordom Corp. 8-5/8% Jun. 15/82	597,000
225,000	TransCanada Pipe 10% Jun. 20/90	230,625
200,000	Union Carbide 10-3/4% Jun. 15/95	213,500
		19,684,481
Reserve 3%		
	Cash & Short Term Notes	666,792
Total Assets at Market, Sept. 30, 1977		\$21,351,273

Performance in the Third Quarter

The Fixed Income Fund unit value increased by 0.4% in the third quarter of 1977. Including income the unit value of the Fund increased by 2.6%. In comparison the McLeod, Young, Weir 40-Bond Index increased by 0.8%. Including income it increased by 3.2%. For the year to date the unit value of the Fund is up 0.7% while the McLeod, Young, Weir 40-Bond Index is up 0.6%.

Our expectations for the market in this quarter has been positive. We have felt all year that long term bond prices could get back to the December 1976 levels. While this has not occurred as yet, the trend during the period under review showed some improvement albeit small. This took place in a market that had very narrow price movements in practically all sectors. Yield changes were largest in the short term market. Three month commercial paper rates were 7.25% at the beginning of the period and the same at the end, however, during this time there was one sharp upward movement in August which saw this same commercial paper yielding 7.65%. Money supply growth at between 8% and 9% fell within the stated objectives of the Bank of Canada as the range was 8-12% during this period. October 7th the Bank of Canada announced that the target range for M1 was being reduced to 7-11% and that the base period is now June 1977. Current M1 growth is in the middle of the new limit.

There was no action on the Bank Rate front. Increasing short term rates in the U.S. and a weaker Canadian dollar through the period made it very improbable that any further downside move in the Bank Rate would be forthcoming.

In the mid term area of the market there were small changes. The provincials showed an increase of .05% while corporates continued their year long decline by dropping .15%. It is interesting that the mid term corporate segment of the market has shown the biggest decline in yield from year end, currently about .40%.

The long term market prices continued to improve and yields moved

slightly lower. Long term Canadas and provincials were down .15% while the same term corporates were off .10%. This still leaves the long term area of the bond market between .15% and .20% higher in yield than year end.

Looking back over the three months, the variation on a week-to-week basis of the differing segments of the bond market showed a narrow range. In the long term market the trend showed small declines followed by stable markets occurring throughout most of the list. Most of the wider fluctuations occurred in the Government of Canada market and this happened during periods of new financing. The Federal Government was still the major borrower in the bond market and this is likely to continue. Provincial and corporate borrowing was relatively light. The provinces still use offshore markets, in most cases the U.S. The corporate calendar, which had been expected to increase as September came around, showed few good grade long term corporate issues. This being the case, the market continues to revolve around the Government of Canada sector. The Government is still financing a substantial portion of its requirements in the long term market and this has brought about over the past year and a half a much more viable entity. With the heavy demand for funds, the yield spread between Canadas and other long term bonds has narrowed and made them more attractive. The demands from the Government of Canada will be larger than originally anticipated because of lower than expected tax revenues. Regardless, this sector still appears to offer the most promise. The fact that Governments are competitive, along with the high degree of marketability, has led to an increase in the holdings of the long term Governments by most investment institutions.

Outlook for the Future

The outlook for interest rates and the bond market for the balance of the year remains positive. Problems may occur depending upon the degree to

which interest rates in the U.S. move higher. Another negative could be any further downward pressure on the Canadian dollar. Domestically the demand for funds outside of the Government of Canada should continue to remain light. The supply of funds is more than adequate.

Provincial borrowing should remain lighter than usual as they have a good portion of their current fiscal year's requirement. We will also see a continuation of foreign borrowing by the provinces as the spread is still attractive and could narrow even further before the tendency would be to switch back to the domestic market. As capital spending is low, we do not expect a major corporate calendar.

If the bond market was dependent purely upon domestic considerations, one could actually see a move to somewhat lower interest rates during the final quarter of the year caused by a relatively light calendar and a buildup of funds that investors would prefer to have committed before the end of the year. However, the outside influences, especially the U.S. interest rate situation and the Canadian dollar, will certainly offset this possibility. Therefore we look for very little change in the interest rate structure through the balance of the year. We believe that the positive and negative forces on the market will tend to balance out. Whereas the negative forces are outside

of Canada and beyond our control, one must continue to assess them very carefully at all times.

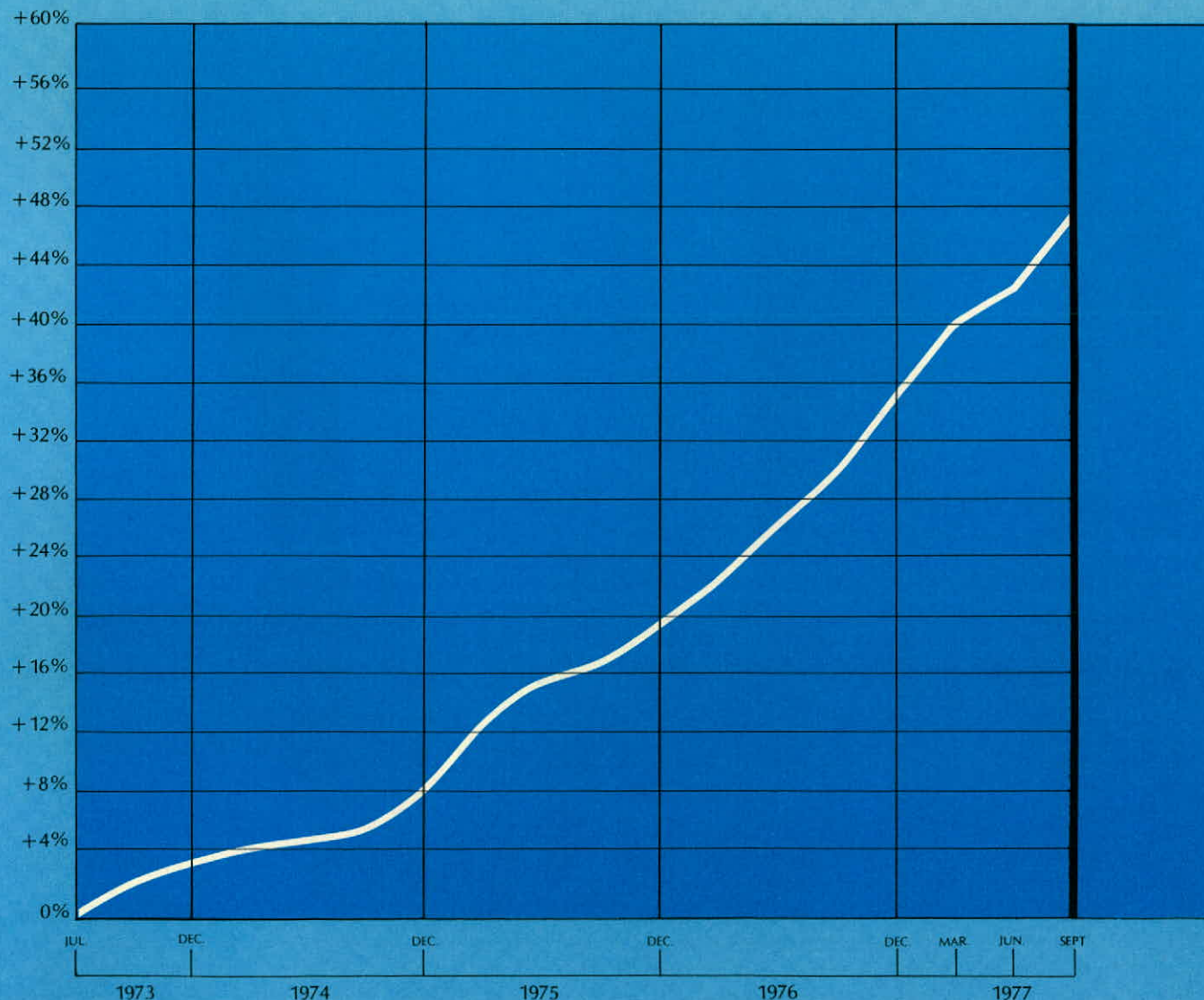
Strategy

The Fund is fully invested. We are still increasing our holdings in the Government of Canada sector and this will continue as there will be more opportunities. The average term of the portfolio remains slightly under 10 years and this policy will be maintained.

Portfolio Composition:

	June 30, 1977	Sept. 30, 1977
Reserve	5%	3%
Canadas	5	11
Provincials	23	24
Corporates	65	60
Conv. Debs.	2	2
	<u>100%</u>	<u>100%</u>

Comparisons between	GRAPH COLOUR	VALUE SEPT. 30/77	VALUE JUNE 30/77	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE YEAR-TO-DATE	COMPOUND ANNUAL RETURN SINCE INCEPTION
Mortgage Fund		\$ 9.96	\$ 9.93	+ 0.3%	+ 0.9%	-0.1%
Mortgage Fund (Incl. Inc.)	■	\$14.68	\$14.29	+ 2.7%	+ 8.3%	+ 9.5%



Performance in the First Three Quarters

The unit value of the Mortgage Fund was \$9.96 on September 30, 1977 which compares with a value of \$9.93 on June 30, 1977 and \$9.87 on December 31, 1976. For the third quarter this represents an increase of 0.3% ; for the year to date it represents an increase of 0.9% . Including income the value of the Mortgage Fund has increased from \$14.29 to \$14.68, a change of + 2.7% . For the first nine months of 1977 the value of the units including income has improved from \$13.55 to \$14.68, an increase of 8.3% .

Mortgage Market in the Third Quarter

Mortgage rates generally maintained a 10 1/4 % level throughout this period. There was little indication of any change in primary mortgage rates although from time to time a rate of 10 1/2 % was being quoted on conventional mortgages. This, however, was more the exception than the rule and the 10 1/4 % level is more representative.

With a relatively stable interest rate structure throughout the quarter, there was little reason for mortgage rates to change. There was some indication that trust company five year rates were declining, however, this has not been general. Mortgages in the secondary market traded in the 9 1/2 % to 10 % range, mostly at the lower level, and closed the quarter at this figure.

Outlook for the Future

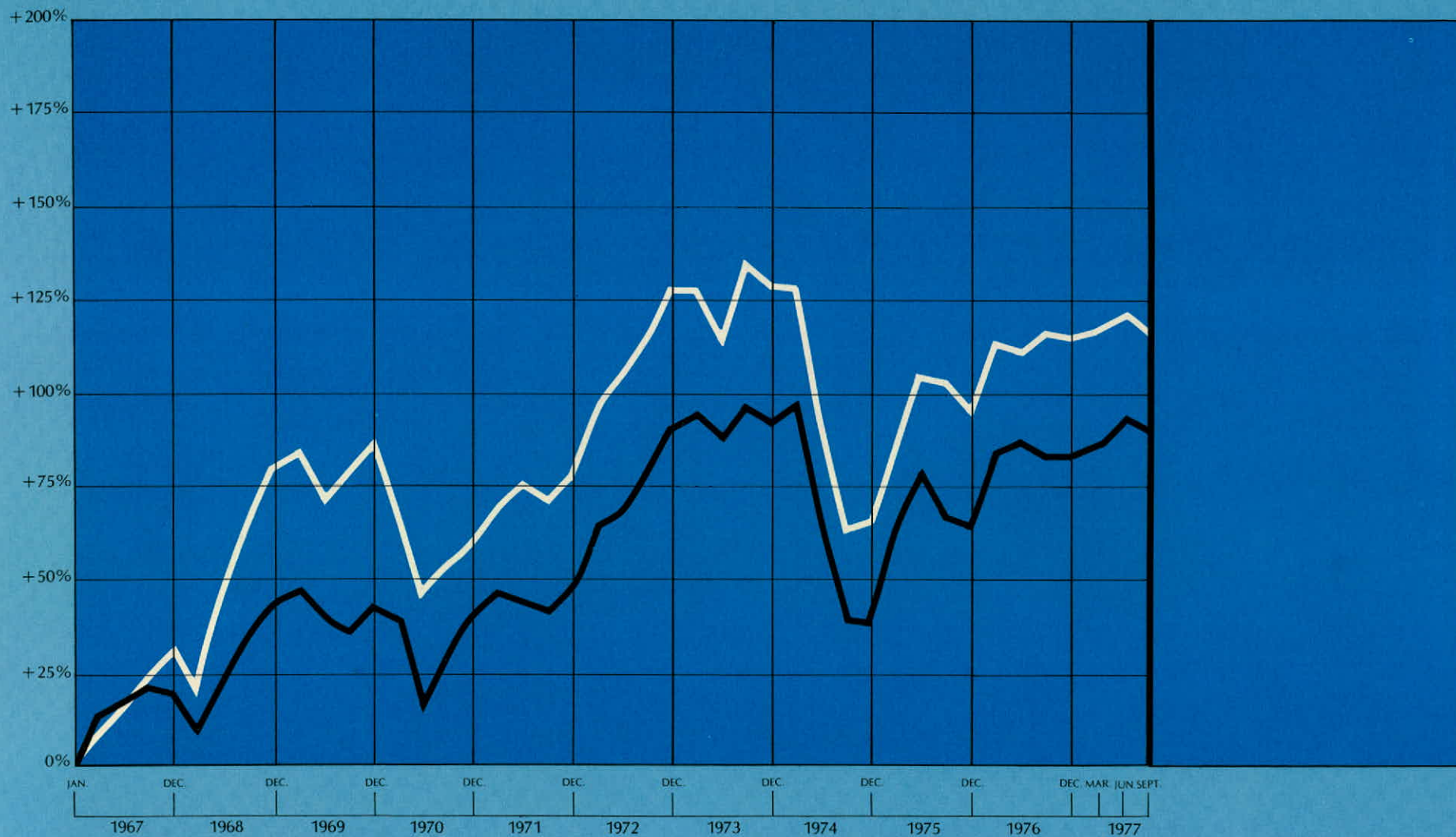
We expect mortgage rates to remain steady during the last quarter of the year. Demand and supply look to be reasonably well balanced at this time. The spread between bonds and mortgages remains unchanged, and while not near its historic levels, still continues to attract sufficient funds. As our outlook for interest rates is for relative stability, the cost of funds to lenders will not decrease.

Strategy

The Mortgage Fund continues to be invested in five year mortgages. Our aim is to be fully invested.

Canadian Equity Fund

<i>Comparisons between</i>	GRAPH COLOUR	VALUE SEPT. 30/77	VALUE JUNE 30/77	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE YEAR-TO-DATE	COMPOUND ANNUAL RETURN SINCE INCEPTION
Canadian Equity Fund		\$ 14.77	\$ 15.05	-1.9%	-0.9%	+ 3.7%
Canadian Equity Fund (Incl. Inc.)	■	21.71	21.90	-0.9%	+ 2.5%	+ 7.5%
TSE 300		1,000.07	1,031.24	-3.0%	-1.1%	+ 2.2%
TSE 300 (Incl. Inc.)	■	1,895.10	1,926.30	-1.6%	+ 3.0%	+ 6.1%



Par Value Shares	Convertible Securities or Common Stocks	Market Price	Market Value Sept. 30/77
	Banks — 14.6%		
34,000	Bank of Nova Scotia	19 1/2	\$ 663,000
26,000	Canadian Imperial Bank of Commerce	22 1/2	585,000
22,000	Royal Bank of Canada	25 3/4	566,500
32,000	Toronto Dominion Bank	17 1/8	548,000
			<u>\$ 2,362,500</u>
	Beverages — 4.1%		
19,800	Brights, T. G. Class A	6 1/2	\$ 128,700
12,300	Molson Company	16	196,800
12,000	Hiram Walker-Gooderham & Worts	28 7/8	346,500
			<u>\$ 672,000</u>
	Communications — 2.5%		
38,185	Standard Broadcasting Corp.	9 3/8	\$ 357,984
3,000	Torstar Corp. Class "B"	12 7/8	38,625
			<u>\$ 396,609</u>
	Forest Products — 8.7%		
38,000	Abitibi Paper Co.	9 1/8	\$ 346,750
17,000	British Columbia Forest Products	22 5/8	384,625
10,000	Domtar	13 5/8	136,250
21,000	MacMillan Bloedel	18 7/8	396,375
18,030	Price	8 1/2	153,255
			<u>\$ 1,417,255</u>
	Insurance — 6.0%		
7,050	Crown Life Insurance	44	\$ 310,200
6,000	Great West Life	58 1/2	351,000
30,000	MICC Investments	10 3/8	311,250
			<u>\$ 972,450</u>
	Merchandising — 8.9%		
18,000	Dominion Stores	17	\$ 306,000
15,000	Hudson Bay Co.	15 3/4	236,250
45,000	Oshawa Group Ltd. Class A	4 13/20	209,250
60,000	Simpson's	4 11/20	273,000
10,000	Steinbergs	16 3/4	167,500
17,000	Woodward Stores	14 7/8	252,875
			<u>\$ 1,444,875</u>
	Mines & Metals — 16.6%		
19,000	Alcan Aluminum	25 5/8	\$ 486,875
8,700	Cominco	32	278,400
17,170	Hudson Bay Mining & Smelting	16 1/2	283,305
15,000	Inco	21 1/2	322,500
5,900	McIntyre Mines	28	165,200

Par Value Shares	Convertible Securities or Common Stocks	Market Price	Market Value Sept. 30/77
16,000	Mattagami Lakes Mines	11 3/8	182,000
10,000	Noranda Mines	23 1/8	231,250
17,000	Placer Development	18 1/8	308,125
10,000	Rio Algom Mines	22 7/8	228,750
45,000	Sherritt Gordon Mines	4 2/5	198,000
			<u>\$ 2,684,405</u>
	Oils & Gas — 13.5%		
10,000	Canadian Superior Oil	55 3/4	\$ 557,500
12,000	Home Oil Co. Class A	34 1/4	411,000
10,000	Hudson Bay Oil & Gas	42	420,000
15,000	Pacific Petroleum	33 1/2	502,500
9,450	Texaco Canada	31	292,950
			<u>\$ 2,183,950</u>
	Pipelines — 8.6%		
20,000	Alberta Gas Trunk Lines	16	\$ 320,000
17,000	Interprovincial Pipeline	15 1/8	257,125
20,000	Trans-Canada Pipeline	16 1/8	322,500
15,000	Westcoast Transmission Co.	33	495,000
			<u>\$ 1,394,625</u>
	Steel — 3.1%		
9,900	Dominion Foundries & Steel Class A	23 3/4	\$ 235,125
10,000	Steel Co. of Canada Class A	26 1/2	265,000
			<u>\$ 500,125</u>
	Trust & Loan — 5.5%		
13,940	Canada Permanent Mortgage Corp.	17 7/8	\$ 249,178
15,000	Canada Trustco Mortgage A	26 1/2	397,500
15,000	IAC	16 3/4	251,250
			<u>\$ 897,928</u>
	Utilities — 5.6%		
8,000	Calgary Power Class A	34 7/8	\$ 279,000
20,000	Canadian Utilities Ltd.	13 7/8	277,500
33,000	Union Gas Ltd. CV-A	10 1/2	346,500
			<u>\$ 903,000</u>
	Miscellaneous — 2.2%		
20,000	Canadian Pacific	18 1/8	\$ 362,500
	Reserve — 0.1%		
	Cash and Short Term Notes		<u>\$ 19,501</u>
	Total Assets at Market, September 30, 1977		<u><u>\$16,211,723</u></u>

Portfolio Balance

	Sept. 30/76	June 30/77	Sept. 30/77
Common Stocks & Equivalents	99.4%	99.7%	99.9%
Reserve	0.6	0.3	0.1
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Portfolio Composition

Consumer Products & Service	38.9%	41.3%	41.6%
Cyclical	41.5	33.2	30.6
Energy	11.2	11.6	13.5
Regulated	7.8	13.6	14.2
Reserve	0.6	0.3	0.1
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Largest Common Stock Holdings as at September 30, 1977 (By Market)

	Percentage of Total Portfolio
Bank of Nova Scotia	4.1%
Canadian Imperial Bank of Commerce	3.6%
Royal Bank of Canada	3.5%
Canadian Superior Oil	3.4%
Toronto Dominion Bank	3.4%

Canadian Stock Market

The small gain eked out by the Canadian stock market in the first six months of 1977 was wiped out in the third quarter, and the Index was actually down in the first nine months of the year.

The market has been a frail affair all year. The extent of the change, both up in the first six months, and down in the third quarter, has been small.

Canadian Stock Market First Nine Months

	31 Dec. 1976	31 Mar. 1977	30 June 1977	30 Sept. 1977
T.S.E. 300	1011.52	1022.11	1031.24	1000.07
Change — Quarterly		+ 1.1%	+ 0.9%	— 3.0%
Cumulative			+ 1.9%	— 1.1%

Internal Features

Of the major groups, the metals and minerals were down 15% in the third quarter, but golds were up almost 18%, running true to form in the opposite direction to the market.

The oil and gas producers, fanned by a late September announcement of what might be an important discovery in Alberta, were up 7.4%, and were the strongest of the major groups in the market.

The pipelines also reacted favourably to news in the third quarter, and in their case it was the Canada-U.S. agreement on the Alcan Highway route for Alaskan gas. The group was up almost 4%, continuing a trend set in the first half of the year.

Financial services, after improving in the second quarter, declined in the third by a little over 2%. Banks alone were down 4%.

Utilities were not much changed in the quarter. Merchandising was down 1.5%, not quite as much as the Index.

Generally the market in the third quarter was reacting to some good news in energy, weak metal markets, quiet domestic business and a continuing lack of investor confidence.

Value in the Market

Yields improved slightly in the third quarter, and the price-earnings ratio went down.

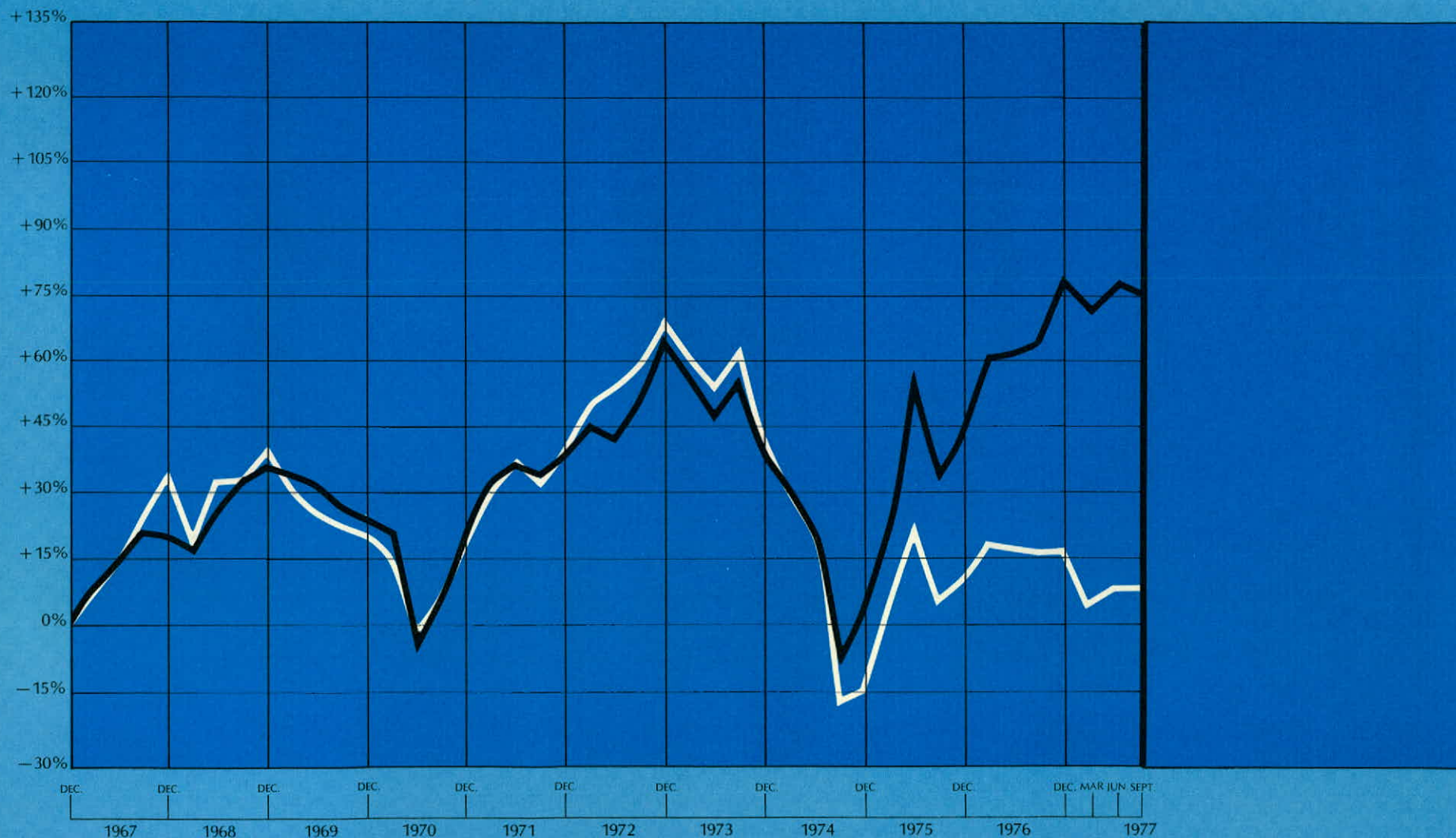
T.S.E. 300

	31 Dec. 1976	31 Mar. 1977	30 June 1977	30 Sept. 1977
Price-earnings Ratio	8.99	8.96	8.62	8.20
Dividend Yield	4.71%	4.72%	4.70%	4.95%

Since the turn of the year, earnings per unit on the Index are up 8.4% and dividends are up about 4%.

International Equity Fund

Comparisons between	GRAPH COLOUR	VALUE SEPT. 30/77	VALUE JUNE 30/77	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE YEAR-TO-DATE	COMPOUND ANNUAL RETURN SINCE INCEPTION
International Equity Fund		\$ 8.38	\$ 8.41	—0.4%	—9.8%	—1.6%
International Equity Fund (Incl. Inc.)	■	\$ 10.72	\$ 10.69	+0.3%	—8.1%	+0.7%
*S & P 500		103.62	106.50	—2.7%	—4.5%	+1.6%
*S & P 500 (Incl. Inc.)	■	2,107.71	2,138.59	—1.4%	—1.1%	+5.3%



Par Value Shares	Convertible Securities or Common Stocks	U.S. Market Price	Canadian Market Value Sept. 30/77	Par Value Shares	Convertible Securities or Common Stocks	U.S. Market Price	Canadian Market Value Sept. 30/77
	Banks — 5.3%				Miscellaneous — 8.0%		
10,000	Bankamerica Corp.	25	\$ 268,350	7,500	Caterpillar Tractors	55	\$ 442,778
9,000	J. P. Morgan & Co.	48 1/8	464,916	5,000	Lowes Companies Inc.	33 1/4	178,453
			\$ 733,266	14,000	Masco Corp.	22	330,607
				3,000	Minnesota Mining & Manufacturing	50 5/8	163,023
	Chemicals — 3.1%						\$ 1,114,861
13,000	Dow Chemicals	31 1/8	\$ 434,324		Oils — 16.1%		
				7,000	Atlantic Richfield Co.	53 1/2	\$ 401,988
	Drugs — 5.4%			11,000	Continental Oil Co. of Delaware	29 5/8	349,794
10,000	American Home Products	28 3/8	\$ 304,577	7,500	Schlumberger	68 1/2	551,459
7,000	Merck Inc.	58 1/2	439,557	5,000	Standard Oil Co. Indiana	47 7/8	256,945
			\$ 744,134	7,000	Exxon Corp.	48 1/4	362,541
				5,000	Haliburton Co.	59 7/8	321,349
	Electronics — 15.1%						\$ 2,244,076
18,000	AMP Incorporated	28 3/4	\$ 555,484		Personal Care — 3.7%		
6,000	General Electric	51 1/4	330,070	10,000	Bristol Myers Co.	34 7/8	\$ 374,348
7,000	Hewlett Packard	77 7/8	585,137	6,000	Chesebrough-Pond's Inc.	22 1/4	143,299
7,000	Texas Instruments	82 3/4	621,767				\$ 517,647
			\$ 2,092,458		Photography — 3.8%		
	Forest Products — 2.3%			8,000	Eastman Kodak	61 1/2	\$ 528,113
10,000	Weyerhaeuser	30 1/8	\$ 323,362		Consumer Products — 3.0%		
				6,000	Philip Morris Inc.	63 7/8	\$ 411,381
	Food & Beverages — 5.0%				Retail Trade — 6.0%		
7,400	Coca Cola Co.	39 5/8	\$ 314,748	15,700	K Mart	30 1/8	\$ 507,678
7,000	McDonalds Corp.	50	375,690	10,000	Sears Roebuck & Co.	30 1/8	323,362
			\$ 690,438				\$ 831,040
	Hospital Supply — 5.5%				Utilities — 2.4%		
16,000	Baxter Travenol Labs	35 5/8	\$ 611,838	5,000	American Telephone & Telegraph	63 1/4	\$ 339,463
2,000	Johnson & Johnson	73 1/2	157,790				
			\$ 769,628		Reserves — 0.2%		
	Information Processing — 12.4%				Cash and Short Term		\$ 27,701
8,000	Automatic Data Processing	26	\$ 223,267		Total Assets at Market, Sept. 30, 1977		\$13,896,096
10,000	Digital Equipment	47 3/4	512,549				
3,500	International Business Machines	261	980,551				
			\$ 1,716,367				
	Insurance — 2.7%						
2,000	General Reinsurance	176	\$ 377,837				

Portfolio Balance

	Sept. 30/76	June 30/77	Sept. 30/77
Common Stock & Equivalents	93.2%	97.9%	99.8%
Reserve	6.8	2.1	0.2
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Portfolio Composition

Consumer Products Division	40.0%	37.3%	39.0%
Cyclical	11.5	12.0	12.2
Energy	3.7	16.2	16.1
Technology	38.0	32.4	32.5
Reserve	6.8	2.1	0.2
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Largest Common Stock Holdings as at September 30, 1977 (By Market)

	Percentage of Total Portfolio
International Business Machines	7.1%
Texas Instruments	4.5%
Baxter Travenol Labs	4.5%
Hewlett Packard	4.2%
AMP Incorporated	4.0%

FOREIGN STOCK MARKETS

United States

The trend of the early part of the year continued in the third quarter. The Dow Jones Industrial Average was down 7.5%, bringing the total decline for the first nine months of 1977 to almost 16%. The broad indexes, the Standard & Poor 500 and the New York Stock Exchange Composite were down only about 4% in the quarter, and were off 9%-10% in the first nine months.

U.S. Stock Market First Nine Months

	31 Dec. 1976	30 June 1977	30 Sept. 1977
Dow Jones Industrials	1004.65	916.30	847.11
Standard & Poor 500	107.45	100.48	96.53
N.Y.S.E. Composite	57.88	55.10	52.81

Internal Features

Not all was gloom in the U.S. market. The Dow Jones Utility Index was only down 1.3%, which also continues a trend seen earlier in the year. The relative strength in utilities is seen as a good omen by many.

The Transportation Index, however, which has been holding up, gave ground in the third quarter and was down almost 10%, more than the Dow Jones Industrials and almost double the rate of decline of the broad indexes.

There was quite a contrast in the third quarter between the "growth" stocks and the cyclical stocks, with the former putting on a better relative performance. Stocks like IBM (down 1%) Eastman Kodak (up 3.4%) and Digital Equipment (up 2%) were in striking contrast to U.S. Steel (off 22%) Alcoa (off 14%) and E. I. DuPont (down 7.3%).

	Latest Twelve Months Earnings	Price Earnings Ratio	Yield
Dow Jones Industrials	95.51	8.9	5.4%
Standard & Poor 500	10.06	9.6	4.7

Other Stock Markets

	31 Dec. 1976	30 June 1977	30 Sept. 1977
London (FT Industrials)	354.7	456.3	520.7
Tokyo (Nikkei Dow)	4,990.85	4,975.93	5,264.38

The London market is now up almost 50% on the year. It has been spurred by a combination of North Sea oil, declining interest rates, a strengthening currency and hope. British economic prospects do appear to have pulled back from the brink of despair, and the government has put curbs on its own spending and on money supply growth. From a crisis level of 15% in October 1976 the Bank of England's minimum lending rate has come down to 6%, which has been a tremendous spur to stock prices.

The Japanese market is up about 5.5% in the year. It was up in the third quarter, after being down in the second.

Unit Values of Diversified Investment Funds Since Inception

	Fixed Income Fund			Mortgage Fund			Canadian Equity Fund			International Equity Fund		
	UNIT VALUE	INCOME YR./QTR./MO.	VALUE INCL. INC.	UNIT VALUE	INCOME YR./QTR./MO.	VALUE INCL. INC.	UNIT VALUE	INCOME YR./QTR./MO.	VALUE INCL. INC.	UNIT VALUE	INCOME YR./QTR./MO.	VALUE INCL. INC.
1966 Dec. 31	\$10.00		\$10.00				\$10.00		\$10.00	\$10.00		\$10.00
1967 Dec. 31	9.52	\$.62366	10.14				12.65	\$.33967	13.02	13.28	\$.22027	13.54
1968 Dec. 31	9.45	.60514	10.73				17.06	.36222	18.00	13.67	.27420	14.24
1969 Dec. 31	9.05	.71799	11.09				16.99	.59274	18.57	11.40	.38707	12.27
1970 Dec. 31	9.64	.74717	12.80				14.03	.58790	15.98	10.62	.34250	11.82
1971 Mar. 31	9.84	.19593	13.33				15.03	.12995	17.28	11.84	.05244	13.24
June 30	9.64	.18892	13.31				15.04	.12842	17.44	12.30	.04849	13.81
Sept. 30	9.90	.20070	13.96				14.59	.11095	17.05	11.79	.05142	13.30
Dec. 31	10.06	.19743	14.46				15.19	.10311	17.87	12.32	.05237	13.96
1972 Mar. 31	10.00	.18497	14.64				16.60	.11675	19.67	13.30	.06550	15.14
June 30	9.93	.18826	14.81				16.95	.11314	20.21	13.46	.04167	15.37
Sept. 30	9.97	.18887	15.16				17.78	.09474	21.32	13.92	.05572	15.96
Dec. 31	10.16	.18626	15.73				18.95	.12469	22.88	14.87	.04958	17.11
1973 Mar. 31	10.13	.18029	15.96				18.87	.09384	22.90	13.94	.06410	16.11
June 30	9.88	.17908	15.85				17.50	.12377	21.38	13.22	.05627	15.36
Sept. 30	9.77	.19265	15.99	9.92	.13906	10.07	19.24	.10939	23.64	13.98	.06974	16.32
Dec. 31	9.71	.19317	16.21	9.92	.20852	10.28	18.32	.16836	22.73	12.11	.05223	14.19
1974 Mar. 31	9.61	.19337	16.36	9.86	.22438	10.45	18.24	.12509	22.77	11.14	.04991	13.11
June 30	9.07	.19501	15.77	9.69	.21141	10.49	15.18	.19720	19.19	10.22	.05406	12.10
Sept. 30	8.91	.20719	15.86	9.50	.23806	10.54	12.53	.16598	16.05	6.68	.05505	7.96
Dec. 31	9.13	.21338	16.64	9.57	.23663	10.89	12.54	.20532	16.32	7.10	.04961	8.51
1975 Mar. 31	9.46	.19206	17.60	9.79	.20778	11.37	14.46	.18013	19.05	9.07	.04728	10.94
June 30	9.26	.19967	17.59	9.72	.22361	11.55	15.73	.13351	20.90	10.33	.07126	12.55
Sept. 30	9.03	.20160	17.54	9.53	.22903	11.60	15.04	.19163	20.23	8.42	.05070	10.29
Dec. 31	9.10	.19367	18.05	9.58	.22931	11.94	14.49	.16139	19.72	8.83	.05527	10.85
1976 Mar. 31	9.18	.20326	18.62	9.60	.23375	12.26	15.92	.15653	21.86	9.61	.05271	11.88
June 30	9.25	.20240	19.18	9.64	.23232	12.61	15.64	.15509	21.71	9.40	.04859	11.68
Sept. 30	9.33	.21144	19.79	9.69	.23378	12.99	15.45	.15367	21.66	9.30	.05021	11.62
Dec. 31	9.66	.22550	20.98	9.86	.23682	13.55	14.91	.19877	21.19	9.28	.05092	11.67
1977 Jan. 31	9.67	.06992	21.15	9.88	.07969	13.67	14.70	.02356	20.93	8.44	.00812	10.61
Feb. 28	9.63	.06845	21.21	9.95	.08046	13.88	14.82	.06150	21.18	8.34	.01941	10.52
Mar. 31	9.60	.07096	21.29	9.96	.07269	13.99	14.89	.07381	21.39	8.26	.01696	10.43
April 30	9.61	.06820	21.45	9.91	.08485	14.04	14.70	.02794	21.15	7.97	.00737	10.08
May 31	9.66	.07050	21.73	9.93	.07733	14.19	14.39	.04354	20.78	7.84	.02317	9.95
June 30	9.69	.06863	21.97	9.93	.07148	14.29	15.05	.10956	21.90	8.41	.01664	10.69
July 31	9.71	.07238	22.17	9.93	.08370	14.41	15.24	.02442	22.20	8.34	.00570	10.62
Aug. 31	9.73	.07444	22.37	9.93	.07577	14.52	14.77	.04591	21.59	8.44	.02625	10.77
Sept. 30	9.73	.06988	22.55	9.96	.07321	14.68	14.77	.08777	21.71	8.38	.01758	10.72

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INTERNATIONAL TRUST COMPANY

TORONTO
ONE FIRST CANADIAN PLACE

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